

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL MEMORANDUM**

**SB 1766 – HB 2520**

April 5, 2016

**SUMMARY OF ORIGINAL BILL:** Authorizes the Holston Hills Country Club in Knox County to sell alcoholic beverages for on-premises consumption.

**FISCAL IMPACT OF ORIGINAL BILL:**

Increase State Revenue – \$300/One-Time/ABC Fund  
\$150/Recurring/ABC Fund  
\$8,200/Recurring/General Fund

Increase Local Revenue – \$7,000/Recurring/Permissive

**SUMMARY OF AMENDMENTS (013516, 011883):** Amendment 013516 adds language to the original bill authorizing an inn, in operation since November 3, 2002, with eight guest rooms and a separate cottage, located in a county with a population of at least 500,000 to sell alcoholic beverages as a premier type tourist resort for on-premises consumption.

Amendment 011883 adds language to the original bill authorizing the Halloran Centre for Performing Arts and Education in Shelby County to sell alcoholic beverages for on-premises consumption.

**FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENTS:**

Increase State Revenue – \$900/One-Time/ABC Fund  
\$1,300/Recurring/ABC Fund  
\$20,900/Recurring/General Fund

Increase Local Revenue – \$17,300/Recurring/Permissive

Assumptions for Holston Hills Country Club:

- There is an initial application fee of \$300 and a \$150 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.

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- Local privilege tax is estimated to be \$1,000 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Knox County is 2.25 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617%.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- It is assumed that the establishment will begin selling alcohol in FY16-17.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$115,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the smaller nature of this particular venue, the recurring increase in sales is estimated to be 50 percent of the average taxable base, or \$57,500 ( $\$115,000 \times 50\%$ ) per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$8,192  $[(\$57,500 \times 7.0\%) - (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)]$ .
- The recurring increase in local revenue is estimated to be \$7,039  $[\$1,000 + (\$57,500 \times 2.75\%) + (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)]$ .
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

#### Assumptions for the Inn:

- There is an initial application fee of \$300 and a \$1,000 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.
- Local privilege tax is estimated to be \$1,000 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617%.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.

- It is assumed that the establishment will begin selling alcohol in FY16-17.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$115,000 per year.
- Given current limitations on the availability of LBD sales data by venue type and size, it is assumed that there are three venue-type categories: smaller than average; average; and larger than average. For the purpose of estimating the tax base for entities authorized to conduct LBD sales pursuant to legislation, the following ratios relative to the average LBD taxable base for all sized entities are utilized: 50 percent for smaller than average; 100 percent for average; and 150 percent for larger than average.
- Given the smaller nature of this particular venue, the recurring increase in sales is estimated to be 50 percent of the average taxable base, or \$57,500 ( $\$115,000 \times 50\%$ ) per year.
- The recurring increase in state revenue to the General Fund is estimated to be \$8,192 [ $(\$57,500 \times 7.0\%) - (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)$ ].
- The recurring increase in local revenue is estimated to be \$6,896 [ $\$1,000 + (\$57,500 \times 2.5\%) + (\$57,500 \times 7.0\% \times 3.617\%) + (\$57,500 \times 15.0\% \times 50.0\%)$ ].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

#### Assumptions for Halloran Centre for Performing Arts and Education:

- There is an initial application fee of \$300 and a \$150 annual fee payable to the Tennessee Alcoholic Beverage Commission (ABC).
- No additional personnel or resources will be required by the ABC.
- Local privilege tax is estimated to be \$150 annually. Any increase in local government expenditures for collecting local privilege taxes is estimated to be not significant.
- State and local sales taxes and a 15.0 percent liquor-by-the-drink (LBD) tax will be assessed on alcoholic beverage sales.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate in Shelby County is 2.25 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617%.
- Pursuant to Tenn. Code Ann. § 57-4-306(a), 50.0 percent of the 15.0 percent LBD tax is allocated to the state General Fund and 50.0 percent is distributed to the local government.
- It is assumed that the establishment will begin selling alcohol in FY16-17.
- Based on the interquartile average of 2014 LBD tax returns and assuming reasonable growth rates in LBD tax collections, the average taxable base per establishment is estimated to be approximately \$32,000 per year for similar establishments.
- The recurring increase in state revenue to the General Fund is estimated to be \$4,559 [ $(\$32,000 \times 7.0\%) - (\$32,000 \times 7.0\% \times 3.617\%) + (\$32,000 \times 15.0\% \times 50.0\%)$ ].
- The recurring increase in local revenue is estimated to be \$3,351 [ $\$150 + (\$32,000 \times 2.25\%) + (\$32,000 \times 7.0\% \times 3.617\%) + (\$32,000 \times 15.0\% \times 50.0\%)$ ].
- Any revenue collected from any state or local taxes imposed on manufacturers or wholesalers is estimated to be not significant.

Total Impact Assumptions:

- The one-time increase in state revenue to ABC is estimated to be \$900 ( $\$300 + \$300 + \$300$ ).
- The recurring increase in state revenue to ABC is estimated to be \$1,300 ( $\$150 + \$150 + \$1,000$ ).
- The recurring increase in state revenue to the General Fund is estimated to be \$20,943 ( $\$8,192 + \$8,192 + \$4,559$ ).
- The permissive and recurring increase in local revenue is estimated to be \$17,286 ( $\$7,039 + \$6,896 + \$3,351$ ).

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in blue ink that reads "Krista M. Lee". The signature is written in a cursive, flowing style.

Krista M. Lee, Executive Director

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